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7 March 1968

MEMORANDUM FOR: Assistant Deputy Director for  
Intelligence  
Director of Economic Research

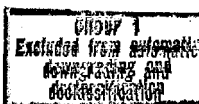
SUBJECT : Inter-Office Management and  
Coordination of Input-Output Analysis  
and Applications

1. The substantive responsibilities of OER and OSR interrelate and in some areas overlap. This was true of the E and M Areas of ORR and it will be true of OER and OSR. I doubt whether the areas of overlap can ever be defined precisely in all cases, or divided along finely drawn lines. As I see it, within the general economic sphere, the focus of OSR's research and analysis is on the military implications of developments or activities, while the OER focus is on civilian economic matters and on the economy as a whole (including, as a component thereof, the military).

2. Thus, the responsibility between OER and OSR can be viewed in one way as dividing on an "intermediate product - final product" basis; that is, the analysis performed by one Office serves as an input to analysis performed by the other.

a. For example, there are aspects of military construction in the USSR for which it is efficient to assign analytical responsibility to OER because of that Office's concentration on civilian economic data and the availability of unique Soviet open source materials. In such a subject area OER is responsible for analysis of the costing and scheduling aspects aimed at measuring the level and trend of Soviet activity. Generally such work should be considered an input to the analysis involving the related military programs as a whole being performed by the OSR.

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b. An example of the opposite would be the use, as in input by OER, of OSR-produced data on Soviet military expenditures needed for OER's aggregative analysis of Soviet national accounts.

3. Admitting that precise definition is impossible, I would submit that the following statements set forth OSR's responsibilities in the military-economic fields as distinguished from the general economic responsibilities of OER:

a. Analysis of the size and composition of military expenditures, including the military budget of the countries for which OSR is responsible;

b. Expenditures for nuclear warheads and allocations, based on cost factors provided by OER and technological factors from OSI;

c. Analysis of facilities, programs, investment, and trends in the defense and aerospace industries of the countries within OSR's field of responsibility. (This is an overlapping responsibility in some respects with OER. The division of responsibility is characterized by an OSR focus principally on the military implications of developments within these industries, while the OER focus is on the broadly civilian economic implications of these industries. In some instances it may be beneficial to identify a specific industry or activity as being principally, but not exclusively, the responsibility of one Office.)

d. In the field of military assistance, OSR is responsible for analysis of the military implications of the flow of arms in both the country of origin and receipt. OER is responsible for analysis of the financial and economic aspects of these programs. (In some instances it may be beneficial to identify the military assistance relationships between two countries as being principally, but not exclusively, the responsibility of one Office.)

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4. In the field of military costing, OSR has certain community-wide responsibilities, by CIA-DoD agreement, which are quite explicit although not the subject of intelligence directive. In connection with these responsibilities, OSR performs a service of common concern to the community and government, and is organized accordingly. Because this is a "primary" responsibility, its discharge requires consideration not only of Agency and national intelligence requirements, but those of other departments and agencies as well.

5. I believe that close coordination between OER and OSR should take place, particularly in these fields of potential overlap, to assure that our limited resources are effectively used. I would therefore, like to recommend that we designate a senior member of each Office (my nominee would be [redacted] to meet regularly to monitor and coordinate the relationship of the two offices in the economic and military-economic areas of research and analysis. This would include general overseeing of the work being done in OER and OSR on the Soviet input-output model. These two senior Office persons should be charged specifically with:

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a. Assuring that the respective interests of the two Offices in economic and military-economic analysis are met;

b. Specifying procedures for coordinated OER-OSR activities to provide the required inputs for the Soviet input-output model;

c. Specifying procedures for coordinated OER-OSR use of the model; and

d. Specifying procedures for future development of the model to the mutual benefit of OER and OSR.

6. In addition, I would recommend that an OER-OSR Working Group be established to undertake the coordinated development of the model. I propose that this Working Group be co-chaired by [redacted] and an OER officer, and that it include such other persons as OSR and OER deem appropriate. This Working Group would make recommendations for the joint OER-OSR effort in development and application of the model, would assure efficient and coordinated exploitation, and would report progress and recommendations periodically to the senior Office representatives.

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Bruce C. Clarke, Jr.  
Director of Strategic Research

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3 April 1968

MEMORANDUM FOR: Director of Economic Research

SUBJECT : Support on Chinese Industrial  
Production Index Project

1. The China (TF/C) and Cost Analysis (PA/C) Branches of OSR will support, to the extent feasible, the work OER is undertaking to update and reexamine production series for major industrial commodities in Communist China, as requested in your March 29th memorandum.

2. I suspect that in many respects data on military output are no more fragmentary than for many civilian products, and that as a practical matter OER will be willing to work with the best available data, despite its many limitations. I am somewhat concerned as to how OER proposes to deal with the pricing problems. Questions along these lines, however, can be dealt with in discussions between our personnel who will be working on the project. We have, as you know, production estimates for most major military items for the 1957-67 period, but some rework or adjustment will be necessary to adapt these to the problem of modifying and extending the present industrial production index. I believe we should rely on discussions to determine the optimum approaches.

3. Because of the pivotal role of military production in overall industrial production, particularly in Communist China, I think it is important that OER and OSR work very closely on a project such as this. In particular, there should be close coordination on the final product. If my understanding of the scope of this project is correct, I believe that the OSR support to it can be completed within the three months you suggested. [redacted] will be in touch with [redacted] to arrange discussions with him.

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BRUCE C. CLARKE, Jr.  
Director  
Strategic Research

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Excluded from automatic  
downgrading and  
declassification